Galt Malleable Iron

ANNUAL REPORT / 1976

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ANNUAL AND SPECIAL GENERAL MEETING

The Annual and Special General Meeting of Shareholders of Galt Malleable Iron Limited will be held at 10.00 o'clock in the forenoon, Toronto Time, in The British Columbia Room of the Royal York Hotel, on Thursday, June 23, 1977.

OFFICERS and DIRECTORS - 1976

OFFICERS

DAVID L. CHANDLER,	Chairman of the Board
HUGH C. MACKAY,	*Vice-Chairman - Emeritus*
DOUGLAS R. McKAY,	President and Chief Executive Officer
FRANK W. SIMPSON,	Secretary-Treasurer
J. DOUGLAS MAJOR,	Vice-President - Group Executive, Casting Divisions

DIRECTORS

DAVID L. CHANDLER, Executive
c/o Garvey, Ferriss
Toronto, Ontario

DOUGLAS R. McKAY, Executive
Galt Malleable Iron Limited
Cambridge, Ontario

ROBERT W. NAVARRE, President
Simpson Industries Inc.
Litchfield, Michigan

HAROLD J. MURPHY, Q.C.
Garvey, Ferriss
Toronto, Ontario

FRANK W. SIMPSON, Executive
Galt Malleable Iron Limited
Cambridge, Ontario

JAMES W. HALLOCK, Director, Casting Sales
U.S. Sales Office
Albion, Michigan

BANKERS
THE ROYAL BANK OF CANADA
Cambridge, Ontario

SOLICITORS
GARVEY, FERRISS
Toronto, Ontario

AUDITORS
THORNE RIDDELL & CO.
Cambridge, Ontario

TRANSFER AGENTS AND REGISTRARS
GUARANTY TRUST COMPANY of CANADA
Toronto, Ontario

Report to Shareholders

On behalf of the Board of Directors, we are pleased to submit this annual report for the year ended December 31st, 1976.

The Company's consolidated sales for the year were $12,213,220., a modest increase over fiscal 1975. Earnings in 1976 were $875,460. ($1.41 per share) including extraordinary gains of $154,257. ($.25 per share). This represented a decline from 1975 earnings of $991,820. or $1.52 per share.

Extraordinary items resulted from capital gains attributable to the sale of investments including the Wayne Forge Division of Bartaco Industries Limited. In addition, the Company benefited from corporation tax savings resulting from the carry forward of a subsidiary's prior year's tax losses.

The Company's equity interest in Bartaco Industries Limited contributed $140,163. to Galt's 1976 earnings as compared to $273,846. in 1975.

During the year, Galt acquired a further 1,305,939 common shares of Bartaco Industries Limited, thus increasing its total holdings to 91.3% of that company's issued and outstanding shares. Management is confident that Bartaco's contribution to your Company's future earnings will be meaningful.

In November of 1976, Bartaco Industries Limited acquired 52.25% of the issued and outstanding shares of Redlaw Enterprises Inc., a Delaware Corporation, with substantial liquid assets. Management's objective is to expand Redlaw's interests in North American markets.

Quarterly dividends at $.10 per Class A share and similar payments less 15% taxes to holders of Class B shares were paid during 1976. It is anticipated that this dividend policy will be maintained during 1977 and in the foreseeable future.

OPERATIONS

Operations during 1976 remained structured in three profit centres, each of which includes controlled subsidiaries or associated companies over which your Company exercises effective management control.

1. THE CASTINGS MANUFACTURING DIVISION

All three foundries that comprise this division are operating at satisfactory levels.

The Galt foundry has achieved significant cost reductions, the consequence of improved yield and scrap programs, with the result that profitability has been sustained in a period of lower production.

Due to the innovative program initiated by management, and backed by the sales division, Brantford has received considerable interest and encouragement from major automotive customers, which has led to the development of new product areas of significant importance for the immediate future.

Production and efficiency levels at the Orillia foundry returned to satisfactory levels after experiencing some problems in July and August. Centralization of certain operating functions such as production control and costing has led to cost savings.

The significant results of management's efforts to increase efficiency and decrease unit costs at all three foundries have enabled the Company to maintain its competitive position in the North American market for auto castings, as well as to strengthen its ability to operate successfully in the diversified areas of the North American castings market.

2. THE GENERAL MANUFACTURED PRODUCTS DIVISION

Management has once again concentrated its efforts in achieving distribution and marketing efficiencies as well as controlling overhead costs.

During the year a major U.S. order for the "Innovator 1" transit seating system was secured and the first Canadian orders were installed in subway cars. Although not very profitable in themselves, these orders have afforded management the necessary experience to improve their production techniques, with result that this division is currently producing at profitable levels. Management is confident that this new project is well on its way to success.

Sales of the Company's conventional transportation seating and other industrial products returned to profitable levels during the year and all prospects indicate further improvement.

3. THE SPECIAL PRODUCTS DIVISION

Spraymould Limited, a controlled subsidiary, has attained sale levels of approximately $230,000. per annum. Tooling for production of special purpose food service packaging is underway and when completed, production of that product should contribute to additional sales. It is Management's intention to maintain operations at levels which can be funded by the cashflow generated thereby until such time as major orders, which would ensure the ongoing success of this operation, are secured.

Your directors, again, wish to thank all employees for their dedicated service and the shareholders for the confidence and interest shown by them.

The annual and special general meeting of shareholders will be held in The British Columbia Room of The Royal York Hotel, Toronto, Ontario, on Thursday, June 23rd, 1977 at 10:00 o'clock a.m.

Notice of this meeting together with the Information Circular and Proxy Form is enclosed with this report.

On behalf of the Board of Directors:

D.L. Chandler
Chairman

D.R. McKay
President

Cambridge, Ontario
May 12th, 1977

Five Year Financial Review

Statement of Income

	1976	1975	1974	1973	1972
Sales	$12,213,220	$12,179,269	$13,627,334	$11,227,003	$9,928,126
Cost of sales	9,585,556	9,429,849	11,422,916	9,244,465	8,071,737
Gross profit	2,627,664	2,749,420	2,204,418	1,982,538	1,856,389
Sales, financial and administrative expenses	1,688,303	1,491,679	1,465,822	1,149,998	1,020,694
	939,361	1,257,741	738,596	832,540	835,695
Other Income					
Share of income before extra-ordinary items of subsidiary companies	140,163	273,846	106,243		
Income from other investments	72,006	18,596			
Income before undernoted items	1,151,530	1,550,183	844,839	832,540	835,695
Income taxes	430,327	558,363	333,137	370,849	437,294
Dividends on preference shares paid to minority share-holders of subsidiary company					3,000
Income before extraordinary items	721,203	991,820	511,702	461,691	395,401
Extraordinary items	154,257		384,473		
Net income	$ 875,460	$ 991,820	$ 896,175	$ 461,691	$ 395,401

Financial and other Information

	1976	1975	1974	1973	1972
Working capital	$10,587,637	$ 1,631,991	$ 1,300,814	$ 772,739	$1,007,983
Working capital ratio	2.64:1	1.79:1	1.73:1	1.39:1	1.87:1
Long-term debt	$ 9,763,159	$ 2,260,830	$ 2,377,760	$ 2,248,076	$2,965,265
Minority interest in subsidiaries	$ 5,130,135				
Information relating to Class A and B shares					
Number of shares outstanding	647,600	647,600	652,500	652,500	652,500
Shareholders' equity	$ 5,416,405	$ 5,000,501	$ 4,242,195	$ 3,426,868	$3,122,448
Equity per share	$ 8.36	$ 7.72	$ 6.50	$ 5.25	$ 4.79
Cash flow per share	$ 1.57	$ 2.32	$ 1.54	$ 1.55	$ 1.45
Earnings per share *	$ 1.41	$ 1.52	$ 1.37	$ .70	$ .60
Dividends per share	.40¢	.30¢	11.7¢	23.5¢	17.6¢
Return on equity	16.2%	19.7%	21.1%	13.3%	12.5%

*Including extraordinary items.

Consolidated Statement of Income

YEAR ENDED DECEMBER 31, 1976

	1976	1975
Sales	$ 12,213,220	$ 12,179,269
Cost of goods sold	9,585,556	9,429,849
Gross profit	2,627,664	2,749,420
Selling and administrative expenses	1,406,673	1,227,004
Interest on long-term debt	223,284	242,352
Other interest	54,294	18,271
Amortization of deferred financial expense	4,052	4,052
	1,688,303	1,491,679
	939,361	1,257,741
Other income		
Share of income before extraordinary items of subsidiary companies	140,163	273,846
Income from other investments	72,006	18,596
	212,169	292,442
Income before taxes and extraordinary items	1,151,530	1,550,183
Income taxes		
Current	394,928	156,725
Deferred	35,399	401,638
	430,327	558,363
Income before extraordinary items	721,203	991,820
Extraordinary items		
Provision for decline in value of advances receivable from non-consolidated subsidiary company		(125,000)
Writeup (writedown) of temporary investment	47,579	(47,579)
Share of		
Profit on sale of businesses of subsidiary company	41,522	17,157
Income tax reduction realized on carry-forward of prior years' income tax losses of subsidiary company	65,156	155,422
	154,257	Nil
NET INCOME	$ 875,460	$ 991,820
EARNINGS PER CLASS A AND CLASS B SHARE		
Before extraordinary items	$1.16	$1.52
Extraordinary items	.25	
Net income	$1.41	$1.52

Consolidated Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1976

	1976	1975
BALANCE AT BEGINNING OF YEAR	$ 4,270,998	$ 3,477,628
Net income	875,460	991,820
	5,146,458	4,469,448
Dividends on		
Preference shares	4,200	4,340
Class A and Class B shares	259,040	194,110
	263,240	198,450
BALANCE AT END OF YEAR	$ 4,883,218	$ 4,270,998

GALT MALLEABLE IRON LIMITED and subsidiary companies
(Incorporated under the laws of Ontario)

Consolidated

AS AT DEC

Assets

	1976	1975
CURRENT ASSETS		
Cash	$ 7,100,749	$ 118,250
Short-term investments at cost which approximates market value	616,633	616,766
Accounts receivable	3,323,544	1,498,728
Note receivable	221,757	
Inventories (note 2)	5,661,376	1,428,069
Prepaid expenses	136,949	34,578
	17,061,008	3,696,391
INVESTMENT IN OTHER COMPANIES		
Non-consolidated subsidiaries (note 3)	738,149	350,701
Effectively controlled company (note 4)		1,374,615
	738,149	1,725,316
LIFE INSURANCE, cash surrender value	36,927	32,327
FIXED ASSETS		
Land	606,811	95,079
Buildings and improvements	4,394,480	2,227,708
Machinery and equipment	11,841,086	6,106,877
	16,842,377	8,429,664
Less accumulated depreciation	7,122,196	3,307,655
	9,720,181	5,122,009
DEFERRED CHARGES, less amortization (note 5)	818,362	65,747
	$28,374,627	$10,641,790

Approved by the Board

D. R. McKay, Director

F. W. Simpson, Director

alance Sheet

BER 31, 1976

Liabilities

	1976	1975
CURRENT LIABILITIES		
Bank indebtedness (note 6)	$ 2,818,440	$ 500,000
Accounts payable and accrued liabilities	1,805,439	768,307
Income and other taxes	1,133,608	255,192
Principal due within one year on long-term debt	715,884	540,901
	6,473,371	2,064,400
LEASE DEPOSITS	33,340	
LONG-TERM DEBT (note 7)	9,763,159	2,260,830
DEFERRED INCOME TAXES	1,497,517	1,255,359
MINORITY INTEREST IN SUBSIDIARIES	5,130,135	
	16,424,151	3,516,189

Shareholders' Equity

CAPITAL STOCK (note 8)

Authorized

2,828	6% Cumulative first preference shares, par value $100, redeemable at up to $105 per share
779	6¼% Cumulative participating second preference shares, par value $100, redeemable at up to $105 per share
999,500	Class A and Class B shares without par value
1,000	Common shares without par value

		1976	1975
Issued			
328	First preference shares	32,800	32,800
279	Second preference shares	27,900	27,900
647,600	Class A and Class B shares	627,951	627,951
		688,651	688,651
CONTRIBUTED SURPLUS		101,552	101,552
RETAINED EARNINGS		4,883,218	4,270,998
		5,673,421	5,061,201
COST OF SHARES IN COMPANY HELD BY SUBSIDIARY		196,316	
		5,477,105	5,061,201
		$28,374,627	$10,641,790

COMMITMENTS (note 9)

Consolidated Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1976

	1976	1975
WORKING CAPITAL DERIVED FROM		
Operations		
Income before extraordinary items	$ 721,203	$ 991,820
Items not involving working capital		
Depreciation and amortization	400,397	385,689
Deferred income taxes	35,398	401,638
Discount on bonds purchased for cancellation	(753)	(520)
Equity in income before extraordinary items of subsidiary companies	(140,163)	(273,846)
	1,016,082	1,504,781
Acquisition of subsidiaries (note 4)		
Long-term bank loan	4,800,000	
5% Note payable	2,921,613	
Working capital less cost of acquisition	1,883,284	
Long-term bank loan		500,000
Sale of fixed assets	35,545	31,726
	10,656,524	2,036,507
WORKING CAPITAL APPLIED TO		
Advances to non-consolidated subsidiaries	387,448	586,926
Writedown in temporary investment no longer required	(47,579)	47,579
Additions to fixed assets	453,529	193,987
Reduction of long-term debt	621,434	616,410
Dividends	263,240	198,450
Purchase for cancellation of Class A and Class B shares including tax related thereto		35,065
Other	22,806	26,912
	1,700,878	1,705,329
INCREASE IN WORKING CAPITAL	8,955,646	331,178
WORKING CAPITAL AT BEGINNING OF YEAR	1,631,991	1,300,813
WORKING CAPITAL AT END OF YEAR	$ 10,587,637	$ 1,631,991

Notes to Consolidated Financial Statements
YEAR ENDED DECEMBER 31, 1976

1. ACCOUNTING POLICIES

(a) Basis of consolidation

These consolidated financial statements include the accounts of the 80% owned subsidiary company, Molectrics Canada Inc.

The consolidated balance sheet includes the assets and liabilities of the 91.3% owned subsidiary company, Bartaco Industries Limited (accounted for on the equity basis in 1975) and its 52.25% owned subsidiary company, Redlaw Enterprises Inc.

The statement of income includes the company's equity in Bartaco's income for the fiscal year ended September 30, 1976 and Redlaw's income from November 3 to December 31, 1976, its fiscal year end. (see note 4).

(b) Inventories

Raw materials and supplies are valued at lower of cost and replacement cost.

Work in process and finished goods manufactured and purchased for resale are valued at lower of cost and net realizable value.

Finished goods on lease are valued at cost less 80% of lease revenue to a minimum residual value of 15% of cost.

(c) Investment in non-consolidated subsidiaries

The investment in the 51% owned non-consolidated subsidiaries, Spraymould Limited and Spraymould (Bahamas) Limited is recorded at cost less provision for decline in value of advances.

(d) Fixed assets

Fixed assets are stated at cost and are depreciated principally on the straight-line basis using rates which are intended to writeoff the cost of the assets over their estimated useful lives.

(e) Deferred charges

Long-term debt issue costs are amortized over the original lives of the related debt.

Deferred development costs relating to products in commercial production are being amortized based on units sold. Based on the company's current sales projections such accumulated deferred development costs will be fully amortized within three years.

Deferred development costs relating to products currently in the development stage are stated at cost less sales revenues therefrom.

(f) Pension plans

Current service costs are charged to income as they accrue. The unfunded past service liability is being charged to income in annual amounts as set out in note 9.

2. INVENTORIES

	1976	1975
Raw materials and supplies	$ 1,744,851	$ 577,635
Work in process	1,159,963	328,392
Finished goods		
Manufactured	452,588	384,325
Purchased for resale	1,614,043	137,717
On lease	689,931	
	$ 5,661,376	$ 1,428,069

Notes to Consolidated Financial Statements (Continued)

3. INVESTMENT IN NON-CONSOLIDATED SUBSIDIARIES

(a) The company has operational control of Spraymould Limited and Spraymould (Bahamas) Limited and is committed to contribute its management expertise to their operations.

Should Galt give up its operational control it would be required to relinquish its shares in the Spraymould companies. Accordingly the accounts of these controlled subsidiaries have not been consolidated in these financial statements.

(b) Galt has guaranteed bank advances to Spraymould of $160,000 at December 31, 1976, and while it retains operational control, is committed to the guarantee of further advances and interest thereon for the financing of Spraymould operations.

(c) Spraymould is in the research and development stage of its corporate existance and all expenses net of government grants and sales revenue have been treated as deferred charges. The ultimate worth of the assets shown in the following summary of financial data and the company's investment in Spraymould is dependent on the successful development of the production process, suitable financing and subsequent sales or royalty agreements at adequate prices. A provision for decline in value of advances to Spraymould in the amount of $125,000 has been reflected in the accounts of the company at December 31, 1975 and 1976.

(c) The investment consists of:

	1976	1975
Shares at cost (51% owned in 1976 and 1975)	$ 9,705	$ 9,705
8% Advances maturing July 31, 1982 less provision for decline in value	728,444	340,996
	$ 738,149	$ 350,701

Spraymould Limited, summary of financial data:

	December 31 1976 Unaudited	June 30 1976 Audited
Current assets	$ 214,919	$ 142,223
Receivable from affiliate	42,046	41,026
Fixed assets, net of depreciation	342,845	373,966
Deferred charges	2,678,221	2,483,098
	$3,278,031	$3,040,313
Current liabilities	$ 295,662	$ 237,279
Long-term debt	2,844,869	2,665,534
Capital stock	137,500	137,500
	$3,278,031	$3,040,313

Spraymould (Bahamas) Limited is currently inactive. Its assets and liabilities are not material.

4. INVESTMENT IN BARTACO INDUSTRIES LIMITED

On November 3, 1976 Bartaco Industries Limited acquired 52.25% of the issued common shares of Redlaw Enterprises Inc., a Delaware Corporation listed on the American Stock Exchange. The purchase price of U.S. $4,870,800 was financed by a bank loan. Bartaco has an option to purchase an additional 9% interest in Redlaw over the next two years at varying prices.

Subsequently, on December 23, 1976, Galt acquired majority control of Bartaco Industries Limited through the purchase of an additional 1,305,939 common shares, bringing Galt's total holdings in Bartaco to 91.3% of its issued common shares (42.0% at September 30, 1976 and 35.5% at December 31, 1975). The additional common shares of Bartaco were purchased for $2,921,613 payable in ten annual instalments with interest at 5% on the outstanding balance.

The acquisition of these subsidiaries is accounted for by the purchase method. Net assets acquired at assigned values (book value $14,422,732) are as follows:

Current assets	$ 14,031,208	
Fixed assets	4,357,836	
Other assets	1,152,721	$ 19,541,765
Current liabilities	4,057,267	
Lease deposits	33,340	
Long-term debt	402,150	
Deferred income taxes	206,760	4,699,517
		14,842,248
Minority interest	5,148,704	
Share of equity in Bartaco Industries Limited prior to acquisition of control	1,731,009	6,879,713
		$ 7,962,535
Consideration given at fair value		
Cash		$ 240,922
5% Note payable		2,921,613
Long-term bank loan		4,800,000
		$ 7,962,535

Assets and liabilities in foreign currencies have been translated into Canadian funds at the exchange rate prevailing on the date of acquisition of control.

5. DEFERRED CHARGES

	1976	1975
Long-term debt issue costs	$ 20,263	$ 24,315
Deferred development costs		
Products in commercial production	738,461	
Products in the development stage	59,638	41,432
	$ 818,362	$ 65,747

6. BANK INDEBTEDNESS

Bank indebtedness is secured by an assignment of book debts, inventories and shares of subsidiary companies.

7. LONG-TERM DEBT

	1976	1975
5¼% First mortgage sinking fund bonds due July 1, 1976		$ 104,000
Less sinking fund cash		33,665
		70,335
5½% General mortgage sinking fund bonds due July 1, 1981	$ 149,000	154,000
Less sinking fund cash	8,866	
	140,134	154,000
7¼% Debenture due July 15, 1982	1,078,700	1,271,900
10% First mortgage bonds due June 15, 1982	341,496	405,496
Bank loans, payable semi-annually to 1980	700,000	900,000

7. LONG-TERM DEBT (Continued)

	1976	1975
5% Note, payable annually to 1987	2,921,613	
Long-term bank loan payable in U.S. funds	4,800,000	
7¼% Debenture, payable monthly to 1981	362,100	
9% Note, payable annually to 1979	135,000	
	$10,479,043	$ 2,801,731
Less principal included in current liabilities	715,884	540,901
	$ 9,763,159	$ 2,260,830

The bonds and debenture are secured by the parent company's fixed assets and by floating charges on all its assets and undertakings. The bank loans are secured by an assignment of shares in a subsidiary company and the temporary investment.

Under the terms of the 7¼% debenture the company has agreed to certain regulation of the following activities:

(a) Investments
(b) Purchase and disposal of fixed assets
(c) Issue of long-term debt
(d) Issue and redemption of capital stock

Principal due on long-term debt within each of the next five years is as follows:

1977	$715,884
1978	862,806
1979	898,313
1980	732,664
1981	671,477

The payment schedule on the $4,800,000 long-term bank loan has not been established with the company's bankers. Accordingly, the foregoing amounts do not include provision for payments on this loan.

8. CAPITAL STOCK

The Class A and Class B shares are interconvertible and the Class B shares are eligible for tax deferred dividends. Such dividends are effectively reduced by the company's tax costs related thereto. In all other respects the rights of the Class A, Class B and common shares are identical.

9. COMMITMENTS

Unfunded Pension Liability

The most recent independent actuarial report indicates that the liability for unfunded past service pension benefits not provided for in the accounts at December 31, 1976 is approximately $160,283. It is the company's intention to fund this liability by annual instalments (including interest) of $32,253 in 1977, $18,481 from 1978 to 1980 and $16,625 thereafter through 1988.

Plant Expansion

At December 31, 1976 the Board of Directors of the company had approved expenditures approximating $2,000,000 for expansion of its Brantford foundry. Of this amount, $126,173 had been expended at December 31, 1976.

10. ANTI-INFLATION LEGISLATION

The company is subject, as of October 14, 1975, to the provisions of the Anti-Inflation Act which provide for the restraint of dividends. Effective December 23, 1976 the company also became subject to the provisions of the Anti-Inflation Act which provide for restraint of prices and compensation. In the opinion of management, the company has complied with this legislation.

11. OTHER STATUTORY INFORMATION

	1976	1975
Direct remuneration of directors and senior officers	$ 170,898	$ 136,123
Depreciation	396,345	381,637

Thorne
Riddell
& Co.

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
Galt Malleable Iron Limited

We have examined the consolidated balance sheet of Galt Malleable Iron Limited as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. For the company and its subsidiary of which we are the auditors our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements for certain subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.

Cambridge, Canada
April 7, 1977

Chartered Accountants

OFFICES THROUGHOUT CANADA AND ASSOCIATES THROUGHOUT THE WORLD

GALT MALLEABLE IRON LIMITED

HEAD OFFICE: P.O. BOX 396, CAMBRIDGE ONTARIO, N1R 5V8

PRINCIPAL OPERATING PLANTS:

CAMBRIDGE:
GALT MALLEABLE IRON LIMITED – FOUNDRY DIVISION
GALT MALLEABLE IRON LIMITED – HARDWARE DIVISION
BRANTFORD:
GALT MALLEABLE IRON LIMITED – FOUNDRY DIVISION

CONTROLLED SUBSIDIARIES:

WATERLOO:
SPRAYMOULD LIMITED

ORILLIA:
BARTACO INDUSTRIES LIMITED
OTACO LIMITED – FOUNDRY DIVISION
OTACO LIMITED – FACTORY DIVISION
OTACO INDUSTRIES LIMITED – TRANSIT SEATING DIVISION

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